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SUBJECT: Taiwan: 2004 INVESTMENT CLIMATE STATEMENT

REF:2004 STATE 250356

1. The following is the Taiwan Investment Climate Statement for 2004, as requested reftel. A copy has been transmitted by e-mail to EB/OIA.

A.1 Openness to Foreign Investment

2. Taiwan officially welcomes foreign direct investment, which at the end of 2003 amounted to 20.8 percent of GDP. Although authorities have taken steps to improve the investment climate, U.S. firms report that impediments remain in some sectors, especially services. Rules on local licensing of professionals are cited as a barrier to foreign providers of some services. Some foreign investors complain of lengthy and non-transparent approval processes. Taiwan's science-based industrial parks and export processing zones by contrast offer streamlined procedures. While Taiwan has made significant improvement in protecting intellectual property, some foreign firms still cite inadequate protection as a deterrent to investing.

3. As part of its efforts to improve the investment climate, Taiwan no longer has a list of permitted investments, but maintains a negative list of industries closed to foreign investment (i.e., only those industries on the list are not open to foreign investment). Liberalization has reduced the list to less than one percent of manufacturing categories and less than five percent of service industries. Some foreign investors believe that liberalization of investment regulations has proceeded faster than corresponding adjustments in attitudes of officials implementing the regulations. The latest significant liberalization took place in February of 2003 when alcohol production, agricultural production, fishing, and animal husbandry were opened to foreign investors, although prior approval is still required from the Taiwan authorities. To live up to its WTO accession commitments, Taiwan opened private production of cigarettes in 2004 without any foreign ownership limit. Railway transport, freight transport by small trucks, pesticide manufacture, and real estate development, brokerage and leasing and trading were all completely opened to foreign investment. After its accession to the WTO in January 2002, Taiwan opened imports of gasoline and liquid natural gas (LNG) to the private sector, without any foreign ownership restriction. It also permitted private wine and cigarette imports. In April 2004, Taiwan dropped ordinary trucking services from but included single-axle truck leasing in the negative list.

4. Most foreign ownership limits have been removed, with a few exceptions. Taiwan-flagged merchant ships are subject to a foreign ownership limit of 66.66 percent. The foreign ownership limit on wireless and wireline telecommunications firms is 60 percent, including a direct foreign investment limit of 49 percent. For the state-owned Chunghwa Telecom Co., which controls 97 percent of the fixed line telecom market, direct and indirect foreign investment is limited to 20 percent. In January 2003, Taiwan raised the foreign ownership limit on cable television broadcasting services from 50 percent to 60 percent, including a 20 percent limit on foreign direct investment. A 50 percent foreign ownership limit remains on onshore mining, satellite television broadcasting services, power transmission and distribution, piped distribution of natural gas, ground-handling firms, air-cargo terminals, air-catering companies, air-cargo forwarders, and high-speed railways. The foreign ownership limit on airline companies is 33 percent.

5. Regulations governing foreign direct investment principally derive from the Statute for Investment by Foreign Nationals (SIFN) and the Statute for Investment by Overseas Chinese (SIOC). These two laws permit foreign

investors to invest in foreign currencies as well as in NT dollars. Companies reinvested by joint ventures with foreign ownership below 33 percent are exempt from limitations applicable to industries on the negative list. Both the SIFN and the SIOC specify that foreign-invested enterprises must receive the same regulatory treatment accorded local firms. Foreign companies may invest in firms undergoing privatization and are eligible to participate in public-financed research and development programs.

16. The Foreign Investment Commission (FIC) of the Ministry of Economic Affairs screens applications for investment, acquisitions, and mergers. According to the FIC, approximately 98 percent of projects with an investment value less than NT\$500 million (US\$14.9 million) are excluded from the negative list; the FIC estimates that approval for these projects is generally granted within three working days at the FIC division chief level. For investments above NT\$500 million excluded from the negative list, approval authority rests with the FIC Executive Secretary and normally is granted within one week. Approval

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of investments in industries on the negative list requires several weeks because those investments must be referred to the relevant supervisory ministries and, for investments less than NT\$500 million, require approval of the FIC Chairman or FIC Executive Secretary. Listed investments exceeding NT\$500 million require screening at the monthly meeting of an inter-ministerial commission.

17. Taiwan offers incentives to encourage investment, including accelerated depreciation and tax credits for investments in emerging or strategic industries, pollution-control systems, production automation and energy conservation. Equipment for R&D purposes can be brought into Taiwan duty-free. Other incentives include low-interest loans for developing new and/or cutting edge products, upgrading traditional industries, and importing automation or pollution-control equipment. A broad five-year tax holiday for new investments was re-instituted in January 1995. Other incentives for manufacturing firms to locate factories in designated industrial parks include free rent the first two years, 80 percent discount on rent in the subsequent two years, and 60 percent discount in the fifth and sixth years. As part of its financial reform, Taiwan encourages banks, insurance companies, and securities firms to merge or transform into financial holding companies. Such mergers and transformations are eligible for incentives.

18. In spite of the FIC and efforts to encourage investment, many foreign investors, especially small investors in the service sector, encounter cumbersome and non-transparent procedures when trying to establish businesses in Taiwan. Strict rules require foreign engineering firms to appoint locally licensed professional engineers as their company representatives in Taiwan. Professionals such as lawyers, architects, accountants, and securities brokers all must pass local licensing exams before they can practice. Foreign investors report that a major attraction of investing in Taiwan's science-based industrial parks is the assistance provided in expediting needed approvals. Investors outside of these areas must seek approval from several central and local government offices. This can be daunting for the small investor without a local partner or agent.

----- A.2 Conversion and Transfer Policies -----

19. There are relatively few restrictions on converting or transferring direct investment funds. Foreign investors with approved investments can readily obtain foreign exchange from a large number of designated banks. Remittance of capital invested in Taiwan according to a schedule submitted by the company to the FIC. Declared earnings, capital gains, dividends, royalties, management fees, and other returns on investments can be repatriated at any time. Capital movements arising from trade in merchandise and services, as well as from debt servicing, are not restricted. No prior approval is required for movement of foreign currency funds not requiring exchange between the NT dollar and the foreign currency. No prior approval is required if the cumulative amount of inward or outward remittances does not exceed the annual limit of US\$5 million for a person or US\$50 million for a corporation. There are no reported delays in remitting investment returns or principal through legal channels.

10. An outbound investment may not exceed 40 percent of the investing company's net worth or paid-in capital (whichever is less), unless the company charter waived the 40 percent limit or unless such investment is approved by shareholders. A local company is not required to obtain prior approval for overseas investments; however, such an approval exempts the

company from the annual capital outflow limit of US\$50 million.

¶11. In April of 2002, Taiwan significantly relaxed restrictions on Taiwan entities' direct investment in China down to a negative list covering only about 100 manufacturing products and 430 agricultural products. In August of 2002, Taiwan abolished a requirement for direct investment in China to go through third nations or areas and removed a direct investment limit of US\$50 million. The ceiling on small and medium enterprises' investment in China was raised from NT\$60 million to NT\$80 million. For large enterprises, the Chinese investment may not exceed 20 percent of the company's net worth exceeding NT\$10 billion, 30 percent of net worth from NT\$5 billion to NT\$10 billion, or 40 percent of the net worth below NT\$5 billion. Prior approval is not required for investments below US\$200,000, but these must be reported to FIC within six months. Taiwan opened direct investment in eight-inch silicon wafer plants in China with some restrictions. Taiwan authorities require an investor to submit a quarterly financial report if the cumulative investment in a project exceeds US\$20 million. Investors are encouraged to repatriate their capital and earnings.

¶12. Taiwan authorities have actively encouraged investment in Southeast Asian nations. Investments are also encouraged in a number of countries with which Taiwan has diplomatic relations, mainly in Central America. Incentives include loans and/or overseas investment insurance with the Export-Import Bank of ROC.

----- A.3 Expropriation and Compensation -----

¶13. No foreign invested firm has ever been nationalized or expropriated in Taiwan. No examples of "creeping expropriation" or official actions tantamount to expropriation have been reported. Under Taiwan law no venture with 45 percent or more foreign investment can be nationalized for a period of 20 years after the venture is established. Expropriation can be justified only for national defense needs and "reasonable" compensation must be given.

----- A.4 Dispute Settlement -----

¶14. Taiwan is not a member of the International Center for the Settlement of Investment Disputes or the New York Convention of 1958 on the recognition and enforcement of foreign arbitration awards. However, investment disputes are not common. Normally, Taiwan resolves disputes according to domestic laws and regulations.

¶15. Taiwan has comprehensive commercial laws, including Company Law, Commercial Registration Law, Business Registration Law, Commercial Accounting Law as well as laws for specific industries. Taiwan's Bankruptcy Law guarantees that all creditors have the right to share the assets of a bankrupt debtor on a proportional basis. Secured interests in property, both chattel and real, are recognized and enforced through a registration system.

¶16. Taiwan's court system is generally viewed as independent and free from overt interference by the Executive Branch. Judges are generally over-worked. In response to complaints about the slow pace of the judicial decision-making, Taiwan authorities adopted measures in 2002 to monitor the case processing time. Simplified courts have been set up to deal with minor cases that can be resolved quickly. Special courts for intellectual property rights (IPR) cases have been established. Unfortunately, the IPR courts are required to hear all types of cases, thus diluting their value. The judgments of foreign courts with jurisdictional authority are enforced in Taiwan by local courts on a reciprocal basis.

----- A.5 Performance Requirements and Incentives -----

¶17. All of Taiwan's performance requirements were removed in January 2002 upon Taiwan's WTO accession except for industrial offset arrangement for Taiwan's military procurements. Like domestic firms, foreign invested-invested companies must be located in areas zoned for appropriate industrial or commercial use. Employment of foreign white-collar employees is subject to prior approval, and a requirement for such employment is a minimum capital of NT\$5 million and annual sales of NT\$10 million. Tax credits and tax breaks are offered to encourage the introduction of new technology into Taiwan. Tax credits are also offered to encourage companies to locate in less-

developed areas of Taiwan. Subsidies of up to one-half of total expenditures are offered for R&D programs. Taiwan does not require that firms transfer technology, locate in specified areas, or hire a minimum of local employees as a prerequisite to investment.

118. Manufacturing firms located in export-processing zones and science-based industrial parks are required to export all of their production in exchange for tariff-free treatment of production inputs. However, these firms may sell on the domestic market upon payment of relevant import duties.

119. "Offsets," or requirements to make investments and/or transfer technology as a condition of a public procurement are generally not permitted under WTO guidelines that, however, do not cover military procurements. Taiwan authorities frequently impose offset obligations on successful bidders for large military procurements under an organized Industrial Cooperation Program (ICP) administered by the Industrial Development Bureau of the Ministry of Economic Affairs. Winning a Taiwan defense contract of US\$10 million or more triggers a direct or indirect offset obligation of at least 40 percent. In some cases, the offset ratio has reached 70 percent. Defense contractors frequently complain of lack of transparency and predictability in setting offset requirements. Although the U.S. Government's Foreign Military Sales (FMS) program does not recognize offset obligations, the successful vendor in an FMS transaction may nevertheless face offset obligations to the Taiwan authorities. Direct offsets are performance requirements directly related to the goods or services procured, such as a commitment to manufacture certain parts of a weapon system in Taiwan. Indirect offsets are less directly related, or even completely unrelated, to the sale. For example, a firm selling military aircraft to Taiwan might assume an obligation to introduce and/or invest in technologies that are central to the island's industrial policy such as biotechnology or nanotechnology. Most firms with substantial offset obligations employ in-house specialists or outside contractors to structure their offset programs.

----- A.6 Right to Private Ownership and Establishment -----

120. Private investors have the general right to establish and own business enterprises, except in a limited number of industries involving national security and environmental protection. Private entities have the right to freely acquire and dispose of interests in business enterprises. Private business firms have the same access as state-owned companies to markets, credit, licenses, and supplies. Taiwan authorities have eliminated state-owned monopolies in such areas as power generation, oil refining, and telecommunications.

----- A.7 Protection of Property Rights -----

121. In 2004, Taiwan continued to take measures to improve enforcement of IPR, including stepping up raids against manufacturing and retail outlets, legalizing previously ad hoc task forces, and passing important revisions to the copyright law that increase penalties for counterfeiters. To prepare for its WTO accession in 2002, Taiwan amended its Patent Law and Copyright Law in November 2001. The amendments extended the term of protection from 18 years to 20 years for some patents and defined computer software as literary works. To address the problem of CD/DVD piracy, Taiwan passed an Optical Media Law in October 2001. The law provides Taiwan authorities with a legal framework to manage CD manufacturing plants through licensing and the use of Source Identification (SID) codes in production. Offenders can receive prison terms up to three years and be fined up to NT\$6 million (US\$179,000). The Optical Media Law and the Joint Optical Disk Enforcement (JODE) Task Force's night/day inspection has led to a dramatic decrease in large-scale factory production of counterfeit CD products produced by CD plants. Taiwan again passed amendments to strengthen its copyright law in 2003 and 2004. These amendments made infringement a public crime, increased penalties for counterfeiters and made it illegal to tamper with technical protection measures.

122. Following its 2002 "IPR Action Plan", the Executive Yuan adopted a fresh IPR Action Plan for 2003-2005. One important measure within this "three-year IPR Action Plan" framework was to establish in January 2003 an Integrated Enforcement Task Force (IETF) consisting of 220 IP police officers. The task force conducts raids on retail optical media sales points to enforce IP rights and has led to a significant decrease in the number of vendors of counterfeit CDs and DVDs. Other enforcement measures include increasing the reward (by ten times to NTD10 million (USD0.29 million) to IPR informants for counterfeiting seizures and setting up

an anti-pirating CD export task force to strengthen inspection on the border.

123. Taiwan's Legislature passed amendments to the Patent and Trademark Laws in January and April of 2003, respectively. The amendments abrogated the administrative and legal procedures for opposing patent applications and to add voice and 3-D shares as elements eligible for trademark.

124. In general, Taiwan is moving towards improved IPR protection. Counterfeit goods from Taiwan seized by U.S. Customs dropped from US\$26.5 million in FY2002 to US\$610,000 in FY2003, and to US\$60,000 in the first half of FY 2004. The Business Software Alliance (BSA) announced that software piracy rate in Taiwan fell from 54 percent in 2002 to 43 percent in 2003. Despite these gains, areas for improvement remain. Taiwan is facing a growing internet-based piracy threat. Counterfeit and parallel imported pharmaceuticals are common in the Taiwan marketplace. Although the LY passed amendments to the pharmaceutical law in March 2004 to strengthen the penalties for dealing in counterfeit pharmaceuticals, enforcement remains relatively weak. Rights owners continue to complain of slow progress in judicial cases, or poor protection on trade dress properties, such as unregistered marks, packing configurations, and outward appearance features.

----- A.8 Transparency of the Regulatory System -----

125. Taiwan has a set of relatively comprehensive laws and regulations regarding taxes, labor, health and safety.

126. Foreign investors note that in addition to tax incentives one of attractions of Taiwan's science-based industrial parks and export processing zones is that bureaucratic procedures associated with investment applications are relatively few and transparent. Outside these areas, the Industrial Development and Investment Center (IDIC) is supposed to function as the coordinator between investors and all agencies involved in the investment process. The Foreign Investment Commission (FIC) is charged with reviewing and approving inbound and outbound investments. However, especially for small investors in services the investment approval process can be daunting.

127. Taiwan has made much effort to simplify the work-permit issuance procedure for foreign white-collar employees. In March 2004, the Council of Labor Affairs (CLA) set up a single window to issue work permits for all white-collar workers. It takes 7 to 10 days for CLA to issue work permits. The work permit may be extended indefinitely as long as the employer considers the employment necessary.

128. In December of 2002, Taiwan removed the job experience requirement for employment of foreign management professionals by global operational headquarters and R&D centers in Taiwan as well as business firms of designated industries. White-collar workers having a master's degree or above are not subject to any job experience requirement. Those with lower education levels are required to have job experience. Foreign white- and blue-collar workers have the right to obtain permanent residence status after they have legally stayed in Taiwan for seven consecutive years with the minimum time of residence of 180 days per year in Taiwan. The seven-year requirement is waived for high-tech personnel and those who have made "significant contributions" to Taiwan.

129. The entry-visa issuance procedures for foreign white-collar workers who work for foreign-invested companies are relatively simple. A foreign executive who enters Taiwan with a tourist visa is no longer required to leave the island before the tourist visa can be transferred to an employment visa. A foreign executive whose employment visa expires is not required to exit before the visa can be renewed.

----- A.9 Efficient Capital Markets and Portfolio Investment -----

130. A wide variety of credit instruments, all allocated on market terms, are available to both domestic- and foreign-invested firms. Legal accounting systems are largely transparent and consistent with international standards. The regulatory system is generally fair. Foreign portfolio investors are no longer subject to the foreign ownership limits or investment fund limits. In recent years, Taiwan authorities have taken a number of steps to encourage more efficient flow of financial resources and credit. The limit on NT dollar deposits that a branch of a foreign bank may take has been lifted. Non-residents are permitted to open NT dollar bank accounts, which are subject to capital-flow controls. After its accession to the WTO in January 2002,

Taiwan lifted restriction on residents' opening bank accounts overseas. Limits on branch banking have been lifted, although approval must be obtained to open new branches. Restrictions on capital flows relating to portfolio investment have been removed. The insurance and securities industries have been liberalized and opened to foreign investment. Access to Taiwan's securities markets by foreign institutional investors has also been broadened.

131. Taiwan abolished the complicated regulatory system governing foreign portfolio investment in October 2003. In the past, only such approved "qualified foreign institutional investors" (QFIIs) as large banks, insurance companies, securities firms and mutual funds, were permitted to engage in portfolio investment. Since then, any foreign institutional investor is allowed to enter Taiwan's markets, and registration has replaced prior approval. The minimum asset requirement has been removed. Investment and capital flows are not limited. On-shore foreign investors (like other residents) are still subject to portfolio investment limits of U.S. \$5 million for an individual foreign investor and US\$50 million for a non-QFII foreign company.

132. In December of 2002, Taiwan removed all legal limits on foreign ownership in companies listed on the Taiwan Stock Exchange (TAIEX) except for certain industries, including power distribution, telecommunications, mass media firms, and airline companies. There have been no reports of private or official efforts to restrict the participation of foreign-invested firms in industry standards-setting consortia or organizations.

133. Taiwan has a tightly regulated banking system. Since the mid-1980s, the financial sector as a whole has been steadily opening to private investment. Nevertheless, the market share held by foreign banks remains relatively small (below three percent). The establishment of new securities firms, banks, insurance companies, and holding companies, has underscored this liberalization trend and enhanced competition. Four large state-owned banks were privatized in early 1998, and another four sold to the private sector in 1999. The only reinsurance company was privatized in 2002. Privatization efforts have reduced the number of public banks to five and cut the share of assets controlled by public banks from 61 percent to 21 percent of total assets of all domestic and foreign banks. The total assets of these five public banks were NT\$5.67 trillion (US\$169 billion) as of September 2004.

----- A.10 Political Violence -----

134. Taiwan is a relatively young multi-party democracy with still evolving, democratic political institutions. The close margin in the 2004 presidential election resulted in an attack on election offices and several large-scale demonstrations. Nevertheless, these incidents were peacefully resolved in a short time. There have been no reports of politically motivated damage to foreign investment. Both local and foreign companies have, however, been subject to protests and demonstrations relating to labor disputes and environmental issues.

----- A.11.a. Corruption -----

135. Taiwan has implemented laws, regulations, and penalties to combat corruption. The "Corruption Punishment Statute," and the criminal code contain specific penalties for corrupt activities. In January 2004, legislation doubled the penalties for corruption by financial personnel, including maximum jail sentences of up to ten years.

136. We are not aware of cases where bribes have been solicited for investment approval. Both central and local governments are offer investors incentives including free rent on land for the first two years and discounts in subsequent years. Taiwan authorities encourage foreign investment and would take action against officials and individuals convicted of profiting illegally from foreign investors.

137. The Government Procurement Law promulgated in 1998 and amended in February 2001 as an element of Taiwan's accession to the WTO has brought significant improvements. The Public Construction Commission (PCC) publishes all major government procurement projects that require open bidding, in accordance with WTO transparency requirements. The PCC organizes inspection teams to monitor all public procurement projects both at the central and local levels. It publishes results of bidding and of inspections. A task force has been organized to investigate complaints.

138. Authorities generally investigate allegations of

corruption and take action to penalize corrupt officials. Since its inauguration in May 2000, the Chen Administration has strengthened anti-corruption efforts. Prosecutors indicted 5,958 persons for corruption, including 320 senior officials (department director level and above) and 426 elected officials. Indicted elected officials included a former speaker of the legislature and 19 legislators. In 2003, a heavy weight in the ruling party was forced to give up her title as senior presidential advisor because of allegations of corruption. In 2001, the Secretary General of the executive branch was forced to step down for corruption committed when he was Chairman of the state-owned Taiwan Sugar Corp.

139. Attempting to bribe, or accepting a bribe from, Taiwan officials constitutes a criminal offense, punishable under the "Corruption Punishment Statute" and the "Criminal Code." The Corruption Punishment Statute as amended in late 2002 treats payment of a bribe to a foreign official a criminal act and makes such a bribe subject to criminal prosecution. The maximum penalty for corruption is life imprisonment plus a maximum fine of three million NT dollars (US\$89,500). In addition, the offender may be barred from public office. The assets obtained from acts of corruption may be seized and turned over to either the injured parties or the Treasury.

----- 1B. Bilateral Investment Agreements -----

140. Taiwan has concluded bilateral investment guaranty agreements with the following 25 countries: Argentina, Belize, Burkina Faso, Costa Rica, Dominica, El Salvador, Guatemala, Honduras, India, Indonesia, Liberia, Malaysia, Macedonia, the Marshall Islands, Nicaragua, Nigeria, Panama, Paraguay, the Philippines, Saudi Arabia, Senegal, Singapore, Swaziland, Thailand, Malawi, and Vietnam. In addition, there is an agreement to guaranty Taiwan's investment in Malawi and another agreement to protect U.S. investment in Taiwan. (An agreement with Latvia signed in 1992 was revoked in August 2004.)

141. Under the terms of the 1948 Friendship, Commerce, and Navigation Treaty with the United States, U.S. investors are generally accorded national treatment and are provided with a number of protections, including protection against expropriation. Taiwan and the United States also have an agreement, signed in 1952, pertaining to investment guarantees that serve as the basis for the U.S. Overseas Private Investment Corporation (OPIC) program in Taiwan. In September 1994, representatives of the United States and Taiwan signed a bilateral Trade and Investment Framework Agreement (TIFA) to serve as the basis for consultations on trade and investment issues. Consultations on a bilateral investment agreement between the United States and Taiwan began in 1996, but are currently on hold.

----- -- 1C. OPIC and Other Investment-Insurance Programs ----- --

142. OPIC programs are available to U.S. investors, though U.S. investors have never filed an OPIC insurance claim for an investment in Taiwan. Taiwan is not a member of the Multilateral Investment Guaranty Agency.

----- 1D. Labor -----

143. As a result of Taiwan's changing industrial structure, labor shortages exist in hi-tech fields including semiconductor and computer chip design and production, computer software design, and telecommunications engineering. The law governing licensing hiring procedures for professional engineering consulting firms continues to place an unnecessary burden on foreign personnel. A two-year work experience requirement for work permits restricts companies from hiring foreign interns or recent graduates. Taiwan began employment of foreign blue-collar workers in 1990 when Taiwan was a full employment economy with labor shortages. However, in the early 2000s, the relatively high unemployment rate prompted the government to restrict employment of foreign workers, reducing foreign workers in Taiwan by nearly ten percent between 2000 and early 2004. Economic expansion prompted Taiwan's government to slightly relax restrictions and foreign workers in Taiwan rose 3.6 percent from 298,392 persons in March to 309,339 persons in October 2004.

144. There are no special hiring practices in Taiwan. Wages typically include a one-month bonus at the end of a year. Fringe benefits often include meals, transportation, and dormitory housing. Dividend-sharing is common among high-tech industries. A standard labor insurance program is

mandatory. The program provides maternity, retirement, and other benefits. A separate retirement program requires employers to grant employees with voluntary retirement at age of 15 years and a length of service of 15 years. The mandatory retirement age is 60 years. A new retirement system to be implemented in July 2005 will require employers to contribute six percent of the monthly wage to employees' accounts at designated banking institutions, and the accounts will follow employees transferred from one employer to another. A universal national health insurance system covers all employees and their family.

145. The Employment Insurance Law enacted in 2002 provides unemployment relief practices with a legal basis. Alternatives for unemployment pay include vocational training allowance for jobless persons and employment subsidy for employers to encourage employment of jobless persons. The Labor Standard Law (LSL) sets a standard eight-hour workday and a biweekly maximum of 84 hours. Legislation adopted in late 2000 set a five-day workweek for the public sector, effective January 2001. Nearly 40 percent of private firms have adopted the five-day workweek system. The LSL restricts child labor and requires employers to provide overtime pay, severance pay, and retirement benefits. The LSL covers both manufacturing and service sectors. Violators are liable to criminal penalties (jail terms) and administrative punishments (fines).

146. The minimum wage is set at NT\$15,840 (US\$473) per month. Current manufacturing sector wages average NT\$41,512 (US\$1,239). In principle, the minimum wage is adjusted in August every year based on the results of collective negotiation between the Chinese National Federation of Industries and the Chinese Federation of Labor Unions. However, for the past six years, the minimum wage has not been adjusted.

147. Labor unions have become more active and independent since Taiwan's martial law was lifted in 1987. In light of economic expansion in 2003/2004, labor disputes dropped in 2003 and further declined in the first ten months of 2004. Taiwan is not a member of the International Labor Organization but generally adheres to the ILO convention of protecting worker's rights.

----- 1E. Foreign Trade Zones/Free Ports -----

148. Taiwan's first free trade/free port zone began operation at Keelung, Taiwan's northern port, in November 2004. The second free trade/free port zone will be inaugurated at Kaohsiung Harbor, southern Taiwan, in January 2005. Plans call for another ten zones to be set up. Taiwan authorities have relaxed restrictions on movement of merchandises, capital and personnel into and out of such zones. Foreign investors are accorded national treatment.

----- 1F. Foreign Direct Investment Statistics -----

149. Statistics on foreign direct investment in Taiwan are available from two sources. The Foreign Investment Commission (FIC) publishes monthly and yearly foreign investment approval statistics by industry and by country. The Central Bank of China (CBC) publishes foreign direct investment arrivals on a quarterly and yearly basis. CBC data, contained in balance-of-payments (BOP) statistics, are not further classified by industry or country.

150. Economic expansion in 2003/2004 prompted Taiwan's private investment to resume positive growth in the second half of 2003, and the growth rate accelerated to nearly 30 percent in the first half of 2004. In the second half of 2004, excess inventory began to slow Taiwan's industrial sector, particularly electronic, optical, and information technology (IT) industries. For semiconductor firms, facility utilization declined from 100 percent in late 2003 to 85 percent in late 2004. Consequently, real growth in private investment is expected to slow to a single-digit rate.

151. Foreign investment in Taiwan is concentrated in electronics and electrical industries and the service sector. The 2003 approved direct investment in electronics and electrical industries including Semiconductor, TFT-LCD and other optical electronic projects soared 45 percent from 2002, and 140 percent in the first half of 2004, but declined of 20 percent in the third quarter. This category accounted for a quarter of the cumulative approved inbound direct investment. Sixty percent of the approved inbound direct investment in Taiwan's electronics and electrical industries came from the United States and Japan.

152. Approved inbound direct investment in the service sector (including banking & insurance, wholesale & retail,

trade, and professional services), grew 17 percent in 2003 to US\$1.9 billion, then leveled off in the first ten months of 2004. This category constituted 44 percent of the cumulative approved inbound direct investment.

153. The United States and Japan used to be the two main sources of Taiwan's foreign investment, but they were replaced by the tax havens in the British Territories in America (BTA), which harbor a growing number of multinational corporations (many originating in Taiwan). Approvals for U.S. investment from 1952 to October 2004 totaled US\$13 billion, or 22 percent of total foreign investment. Of total U.S. investment, 34 percent was directed toward the electronics and electrical industries, and another 34 percent toward the service sector. Approvals for Japanese investment amounted to US\$12 billion, or 20 percent of total foreign investment, of which 28.5 percent was in electronics and electrical industries and 31 percent in the service sector.

154. Approvals for investment from the BTA surged steadily from US\$76 million in 1994 to US\$1.2 billion in 1999 when the BTA surpassed the United States and Japan to become the largest source of foreign investment in Taiwan. Investment from the BTA during 1999- October 2004 accounted for 27 percent of total approved investments, compared to 18.5 percent from the United States and 15 percent from Japan. Twenty-seven percent of the investment from the BTA was directed towards the banking and insurance industries and another 21 percent to the electronic and electrical industries.

155. As a relatively open and liberal economy, Taiwan receives foreign investment while its businesses invest overseas, especially in China, Southeast Asia and the Americas. According to balance-of-investments statistics compiled by the CBC, outbound direct investment has exceeded inbound direct investment since 1988. According to FIC statistics, by October 2004 cumulative approvals for outbound investments totaled US\$81 billion. One of the main recipients of Taiwan investment has been China where approved investments increased by 19 percent in 2003 and 52 percent in the first ten months of 2004.

156. Taiwan business firms started to relocate their production bases to China in the late 1980s. Production lines in China gradually shifted from cheap labor-oriented industries in the late 1980s to products requiring lower-end technologies, such as PC and motherboard, in the early 2000s. The WTO accession of China and Taiwan in 2002 prompted Taiwanese business firms to accelerate relocation to China to sharpen their competitive edge in exports. Taiwan factories based in China use the lower cost labor and land there to process Taiwan-made production inputs into finished goods for exports to such industrial markets as the United States, Japan and Europe. Taiwan's direct investment across the Taiwan Strait grew from US\$1.25 billion in 1999 to US\$5.4 billion in the first ten months of 2004. As a result of this trend Greater China (China plus Hong Kong) replaced the United States as Taiwan's largest export market in 2001, and Greater China's share of Taiwan's exports in the first ten months of 2004 reached 37 percent, much higher than 16 percent for the United States and 13 percent for the European Union.

Table 1

Foreign Investment Approvals by Year and by Area
(1952-2004) (unit: U.S. dollar million)

| Year | U.S.A. | Japan | Central Ameri. | Europe | Hong Kong | Other | Total |
|---------|--------|--------|-------------------|--------|--------------|--------|--------|
| 52-89 | 3,067 | 2,983 | 341 | 1,312 | 1,198 | 2,049 | 10,950 |
| 1990 | 581 | 839 | 66 | 283 | 236 | 297 | 2,302 |
| 1991 | 612 | 535 | 60 | 165 | 129 | 277 | 1,778 |
| 1992 | 220 | 421 | 37 | 165 | 213 | 405 | 1,461 |
| 1993 | 235 | 278 | 38 | 214 | 169 | 279 | 1,213 |
| 1994 | 327 | 396 | 76 | 245 | 251 | 336 | 1,631 |
| 1995 | 1,304 | 573 | 151 | 338 | 147 | 412 | 2,925 |
| 1996 | 489 | 546 | 417 | 198 | 267 | 544 | 2,461 |
| 1997 | 491 | 854 | 659 | 401 | 237 | 1,625 | 4,267 |
| 1998 | 952 | 540 | 711 | 367 | 274 | 895 | 3,739 |
| 1999 | 1,145 | 514 | 1,216 | 462 | 161 | 733 | 4,231 |
| 2000 | 1,329 | 733 | 2,300 | 1,000 | 271 | 1,775 | 7,608 |
| 2001 | 940 | 685 | 1,397 | 1,182 | 145 | 780 | 5,129 |
| 2002 | 600 | 609 | 803 | 609 | 66 | 585 | 3,272 |
| 2003 | 687 | 726 | 919 | 635 | 44 | 565 | 3,575 |
| Jan-Oct | | | | | | | |
| 2004 | 284 | 791 | 687 | 550 | 181 | 432 | 2,925 |
| 52-04 | 13,264 | 12,022 | 9,878 | 8,326 | 3,989 | 11,989 | 59,468 |

Source: Foreign Investment Commission

Table 2

Foreign Investment Approvals by Industry and Area
(1952-2004) (unit: U.S. dollar million)

| Industry | U.S.A. | Japan | Centr. Ameri. | Hong Eur. Kong | Other | Total |
|----------|--------|-------|------------------|-------------------|-------|-------|
|----------|--------|-------|------------------|-------------------|-------|-------|

| | | | | | | | |
|----------------|--------|--------|-------|-------|-------|--------|--------|
| Total | 12,980 | 12,022 | 9,191 | 7,776 | 3,989 | 11,989 | 59,468 |
| Electronics | | | | | | | |
| & Electrical | 4,885 | 3,425 | 2,114 | 1,711 | 649 | 1,726 | 14,146 |
| Banking | | | | | | | |
| & Insurance | 2,129 | 412 | 2,653 | 1,967 | 694 | 2,571 | 10,426 |
| Services | 942 | 1,446 | 1,507 | 876 | 503 | 1,553 | 6,827 |
| Chemicals | 1,511 | 878 | 305 | 1,090 | 278 | 386 | 4,448 |
| Wholesale | | | | | | | |
| & Retail | 815 | 947 | 888 | 871 | 263 | 778 | 4,562 |
| Trade | 524 | 870 | 214 | 326 | 313 | 483 | 2,730 |
| Basic Metal | | | | | | | |
| & Products | 355 | 790 | 192 | 129 | 128 | 946 | 2,540 |
| Machinery | 338 | 842 | 232 | 216 | 118 | 334 | 2,080 |
| Food & | | | | | | | |
| Beverage | 254 | 263 | 109 | 245 | 127 | 404 | 1,408 |
| Transportation | 76 | 72 | 15 | 76 | 141 | 734 | 1,114 |
| Transport | | | | | | | |
| Equipment | 101 | 531 | 88 | 68 | 97 | 70 | 955 |
| Non-metallic | | | | | | | |
| Minerals | 257 | 268 | 40 | 96 | 81 | 166 | 908 |
| Others | 1,441 | 1,272 | 1,521 | 655 | 596 | 1,839 | 7,324 |

Source: Foreign Investment Commission

Table 3
Outbound Investment Approvals by Year and by Area
(1952-2004) (unit: U.S. dollar million)

| Year | China | Central Americ. | U.S.A. | ASEAN | Others | Total |
|---------|---------|--------------------|--------|-------|--------|---------|
| 1952-89 | n.a. | 76 | 865 | 429 | 155 | 1,525 |
| 1990 | n.a. | 170 | 429 | 567 | 386 | 1,552 |
| 1991 | 174 | 268 | 298 | 720 | 370 | 1,830 |
| 1992 | 247 | 239 | 193 | 309 | 146 | 1,134 |
| 1993 | 1,140 | 194 | 529 | 434 | 504 | 2,801 |
| | (2,028) | | | | | (2,028) |
| 1994 | 962 | 569 | 144 | 398 | 506 | 2,579 |
| 1995 | 1,093 | 370 | 248 | 326 | 413 | 2,450 |
| 1996 | 1,229 | 809 | 271 | 587 | 498 | 3,394 |
| 1997 | 1,615 | 1,051 | 547 | 641 | 655 | 4,509 |
| | (2,720) | | | | | (2,720) |
| 1998 | 1,519 | 1,838 | 599 | 478 | 381 | 4,815 |
| | (515) | | | | | (515) |
| 1999 | 1,253 | 1,359 | 445 | 522 | 943 | 4,522 |
| 2000 | 2,607 | 2,248 | 862 | 389 | 2,118 | 7,684 |
| 2001 | 2,784 | 1,693 | 1,093 | 523 | 1,083 | 7,176 |
| 2002 | 3,859 | 1,575 | 578 | 211 | 1,006 | 7,229 |
| | (2,864) | | | | | (2,864) |
| 2003 | 4,595 | 1,997 | 467 | 298 | 1,206 | 8,563 |
| | (3,104) | | | | | (3,104) |
| Jan-Oct | | | | | | |
| 2004 | 5,425 | 874 | 492 | 904 | 609 | 8,304 |
| 1952-04 | 39,734 | 15,330 | 8,059 | 7,736 | 10,440 | 81,299 |

Source: Foreign Investment Commission

Note: Figures in parentheses refer to investments made prior to the specified year but not previously registered.

Table 4
Outbound Investment Approvals by Industry and by Area
(1952-2004) (unit: U.S. dollar million)

| Industry | China | Centr. Amer. | U.S.A. | ASEAN | Others | Total |
|--------------|--------|-----------------|--------|-------|--------|--------|
| Total | 39,734 | 15,330 | 8,060 | 7,736 | 10,439 | 81,299 |
| Electronics | | | | | | |
| & Electrical | 13,451 | 421 | 2,585 | 2,916 | 2,032 | 21,405 |
| Banking | | | | | | |
| & Insurance | 545 | 12,009 | 1,203 | 724 | 4,039 | 18,520 |
| Services | 1,219 | 1,087 | 1,161 | 192 | 648 | 4,307 |
| Chemicals | 2,663 | 68 | 1,091 | 552 | 342 | 4,716 |
| Basic Metals | | | | | | |
| & Products | 3,539 | 76 | 50 | 639 | 230 | 4,534 |
| Trade | 348 | 925 | 253 | 69 | 761 | 2,356 |
| Plastic | | | | | | |
| Products | 2,524 | 20 | 7 | 51 | 27 | 2,629 |
| Food & | | | | | | |
| Beverage | 1,906 | 2 | 162 | 253 | 99 | 2,422 |
| Precision | | | | | | |
| Instrument | 2,103 | 43 | 94 | 58 | 65 | 2,363 |
| Wholesale & | | | | | | |
| Retail | 726 | 318 | 761 | 201 | 378 | 2,384 |
| Textiles | 1,431 | 21 | 44 | 648 | 180 | 2,323 |
| Non-metallic | | | | | | |
| Minerals | 2,052 | - | 7 | 388 | 35 | 2,482 |
| Others | 7,228 | 340 | 642 | 1,045 | 1,603 | 10,858 |

Source: Foreign Investment Commission

Table 5
Technical Cooperation Projects by Year and by Area
(1952-1995) (unit: number of projects)

| Year | Japan | U.S.A. | Europe | Others | Total |
|------|-------|--------|--------|--------|-------|
|------|-------|--------|--------|--------|-------|

| | | | | | |
|-------|-------|-------|-----|-----|-------|
| 52-89 | 1,996 | 728 | 412 | 103 | 3,221 |
| 1990 | 106 | 54 | 30 | 10 | 200 |
| 1991 | 80 | 65 | 33 | 8 | 186 |
| 1992 | 193 | 50 | 19 | 10 | 175 |
| 1993 | 85 | 50 | 34 | 12 | 181 |
| 1994 | 70 | 39 | 24 | 6 | 139 |
| 1995 | 50 | 29 | 10 | 5 | 94 |
| 52-95 | 2,483 | 1,015 | 562 | 136 | 4,196 |

Source: Foreign Investment Commission

Note: Taiwan ceased to compile statistics on technical cooperation with foreign companies in 1996. Businesses have not been required to report technical cooperation projects to the FIC since the Statute for Technical Cooperation was abolished.

Table 6
Technical Cooperation Projects by Industry and by Area
(1952-1995) (unit: number of projects)

| Year | Japan | U.S.A. | Europe | Others | Total |
|---------------------------|-------|--------|--------|--------|-------|
| Total | 2,483 | 1,015 | 562 | 136 | 4,196 |
| Electronics & Electrical | 708 | 416 | 106 | 16 | 1,246 |
| Chemicals | 416 | 203 | 160 | 28 | 807 |
| Machinery | 368 | 68 | 97 | 9 | 542 |
| Basic Metal & Products | 329 | 55 | 53 | 6 | 443 |
| Other Services | 111 | 106 | 27 | 42 | 286 |
| Rubber Products | 131 | 32 | 21 | 4 | 188 |
| Non-metallic Minerals | 97 | 22 | 24 | 2 | 145 |
| Food and Beverage | 80 | 38 | 13 | 9 | 140 |
| Textiles | 47 | 21 | 8 | 2 | 78 |
| Construction | 38 | 5 | 10 | 4 | 57 |
| Garment & Footwear | 18 | 14 | 4 | 3 | 39 |
| Paper Products & Printing | 19 | 13 | 4 | - | 36 |
| Transport Equipment | 20 | 2 | 8 | 1 | 31 |
| Others | 101 | 20 | 27 | 10 | 149 |

Source: Foreign Investment Commission

Table 7 Major U.S. Investors in Taiwan

| U.S. Investor/ Local Investment | Major Products |
|--|---|
| NRG Energy/ Hsin Yu Energy Co. | power generation |
| Amkor Technology Ltd./ Amkor Technology Taiwan (Lungtan) Ltd. | IC packing |
| Amkor Technology Taiwan (Linkou) Ltd. | |
| AIG/ Yageo Corp. | electronic Component |
| Far East Air Transport Corp. | airlines |
| Nan Shan Life Insurance Co. | insurance |
| Citi Co./ Fu Bong Group | banking/finance |
| Pruco Insurance Group/ Masterlink Securities Co. | securities |
| Corning Inc./ Corning Glass Taiwan Co., Ltd. | mother glass for TFT/LCD |
| GTE-Verizon Taiwan Fixed Network Telecom Taiwan Cellular Corp. | fixed-line and mobile phone service |
| Carlyle Group/ Taiwan Broadband Co. (TBC) | cable TV |
| Ensite Limited (Ford Motor)/ Ford Lio Ho Motor Co. | autos |
| Texas Instruments Inc. Texas Instruments Taiwan Ltd. | semiconductor |
| AMOCO Chemical Corp./ China American Petrochemical Co. | petrochemicals |
| E.I. Dupont De Nemours/ Dupont Taiwan Ltd. | industrial, electronic agricultural goods |
| IBM Corp./ IBM Taiwan Ltd. | computers: sales and service |

| | |
|--|---|
| AETNA Life Insurance Co./ Taiwan Branch | insurance |
| AT & T Inc./ AT & T Communications Services Taiwan Inc. | telecommunication: sales and services |
| Far EastOne Telecommunications Yuan-ze Telecommunications Ltd. | mobile phone service |
| View Sonic Co./ Taiwan PCS Network Inc. | mobile phone service |
| Waner Village Cinema Co./ Waner Village Cinema (Taiwan) Co. | movie theater operation |
| United Parcel Service International Inc. (UPS)/ UPS, Taiwan Branch | world wide express services |
| Intel Inc./InteX. Co. | ADSL chipset |
| Applied Materials Ltd./ Applied Materials Taiwan Ltd. General Motor Co./ Yulon GM Motor Co. | semiconductor mfg. equipment auto assembly & sales |

Table 8 Major Japanese Investments in Taiwan

| Japanese Investors/Investment | Major Products |
|---|--|
| Toppan Printing Co./ Toppan Electronics (Taiwan) Co. Toppan CFI (Taiwan) Co. | sales and produce color filter |
| Nippon Sheet Glass Co./ Taiwan Auto Glass Industry Co. Nippon Sheet Glass (Taiwan) Ltd. | Auto glass Mother glass |
| Asahi Glass Co. (AGC)/ Asahi Glass (Taiwan) Co. | Mother glass |
| NTT DoCoMo/ KG Telecommunication Co | Phone service |
| Taiwan Shinkansen Corp./ Taiwan High Speed Rail Corp. | High speed rail |
| Sharp Corp./ Quanta Display Co. | TFT-LCD |
| Nissan Motor/Yulon Motor | autos |
| Toyota Motor/Kuozui Motor | autos |
| Matsushita Electronic Co./ Matsushita Electronic (Taiwan) Co., Ltd. | electrical appliances |
| Hitachi Co./ Taiwan Hitachi Co., Ltd. Kaohsiung Hitachi electronics Co., Ltd. | electrical appliance, and components |
| Yamaha Motor Co., Ltd./ Yamaha Motor Taiwan Co., Ltd. | motorcycle |
| Sankyo Co./Sankyo Co. Taipei | pharmaceuticals |
| Idemitsu Co./Shinkong Idemitsu Corp. | petrochemicals |
| Mitsui Co./Mitsui (Taiwan) | trading |
| Takashimaya Co./Ta-ya Takashimaya Dept. store | department store |
| Sumitomo Co./Sumitomo (Taiwan) | trading |
| Toshiba Co./Toshiba Compressor (Taiwan) | compressor |
| Sadagawa Steel Co./Sheng Yu Steel Co. | steel |
| Shin-Etsu Handotai Co./Shi-Etsu Handotai Taiwan Co. | semiconductor |
| Komatsu Co./ Formosa Komatsu Silicon Co. | silicon wafer |
| Fujitsu Hitachi Plasma Display Co./ Formosa Plasma Display Co. | PDP |
| Mitsui Mining & Smelting Co./ Taiwan Copper Foil Co. | copper foil |
| Kirin Brewery Co./ Taiwan Kirin Co. | beer sales |

Table 9 Major European Investments in Taiwan

| European Investors/Investment | Major Products |
|---|------------------------------------|
| Saberasu Investments Co./ Cerberus Asset Management Co. | Assets Managemt. business |
| Goldman Sachs/ Goldman Sachs, Taipei Branch | securities; underwriting |
| Deutsche Telecom/ Eastern Broadband Telecom Volkswagen Ag/Ching Chung Motor Co. | fixed-lien service autos |
| Dresdner Bank Ag/Grand Cathay Securities | securities |
| Imperial Chemical Inc./ICI Taiwan Ltd. | chemicals |
| N.V. Philips/Philips Electronics (Taiwan) | electronics |
| Alcatel Co./Alcatel Taisel Co. | switch board |
| Internallianz Bank, Zurich/Kwang Hwa Securities | securities |
| Horwood Investment/Chi Mei Industry Co. | petrochemicals |
| H.S. Development & Finance/ChinaTrust Commercial Bank | banking |
| Infineon Technologies Inc./ Promos Technologies Inc. Inotera Co. | DRAM |
| Siemens Telecommunications systems Ltd. | switch system & phone equipment |
| Isenbourg-sgp, Lda/ RT-Mart International Ltd. | Shopping malls |

End table.
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